

Accounting and Accountability

by General George T. Babbitt

How do you put an accounting system in place that will accurately—and fairly—measure the costs of doing business?

After attending my assumption of command ceremony and hearing me speak of the challenges ahead for AFMC, my sister sent me a book to read. I liked the book so much, that I asked my Comptroller to get copies for all of my directors—AFMC's Executive Team. The title of the book was *Accounting for Dummies*. I wasn't trying to insult anyone's intelligence, I just wanted my folks to know that I am absolutely serious about using business management tools to accomplish our combat-support mission with ever-increasing effectiveness, while reducing costs.

We face a complicated challenge. How do you put an accounting system in place that will accurately—and fairly—measure the costs of doing business? One of the difficulties is that the lines of accountability for costs don't always readily match up with the lines of authority. Organizational structure and cost structure are separate. They may intersect, overlap, or be superimposed over each other in places, but they're not the same. That shouldn't keep us, however, from having accounting, which is the formalized discipline for following the money, support accountability, which is the personal discipline of following principles. Putting in place an accounting system that promotes accountability is a daunting task, but it's necessary if you want to translate input costs into output costs and hold someone accountable.

Accountability starts at the top. In addition to being the Commander of AFMC, I consider myself the CEO of a corporation with individual business components. In the same way that a CEO in a company is accountable to the board, I see myself accountable to headquarters Air Force, and in a more general sense, to the Office of the Secretary of Defense, to the Executive Branch, and ultimately, to the taxpayers. It's important in my mind that we convey the attitude that we're here as public servants—all of us—and that we're accountable to those others appointed above us to make sure we set some goals, measure our progress, and produce results. One of the results is fiscal responsibility.

For some time now, I've believed that we in the Air Force do too little to manage costs in a way that actually reduces what we spend. Too often we, as an organization, seem to talk about a project and whether that project is going to save money, but judging from the amount of resources we consume, we sometimes don't feel accountable for actually producing savings.



Over the years, I've developed this nagging feeling that there is a way we can use accounting data to make us more financially responsible. There is no doubt we have capable and ingenious people who have found new and better ways to do things. But the promise of those improvements goes unfulfilled when we don't have the accountability to make sure improvements not only stimulate better performance, but also save money.

Some folks think that linking mission performance to cost performance is pretty radical for a military organization. I don't think it's radical; it's just not fully accepted. These ideas for government management go back to the 1950s and '60s. Businesses have been doing this for two or three hundred years. But from a military point of view, based on the limited success we've had with cost accounting—and accountability—it hasn't been totally embraced. Training is needed. We need to talk about this and find useful ways to apply it to our military businesses. None of this counts for much if it doesn't produce better results. Part of the challenge here is to teach people how to make good use of business techniques.

Will this require a change in the command's mindset? You bet it will! There's a tendency for us, not only in AFMC but throughout the Air Force, and probably throughout DoD, to look at resources as something you need to go get in preparation for doing a project. Therefore, you try to get more of everything. You need money, you need manpower, you need office space, and you need material. You make a list, add it up, and then go off and manage the program.

Instead, we should be focused on the cost of our output. We know that in support of the mission we're going to provide certain products and services. We should understand thoroughly what those are, and we should measure them, and then we should assign a cost to them. Our goal should be to constantly drive down the cost of those products or services—the output.

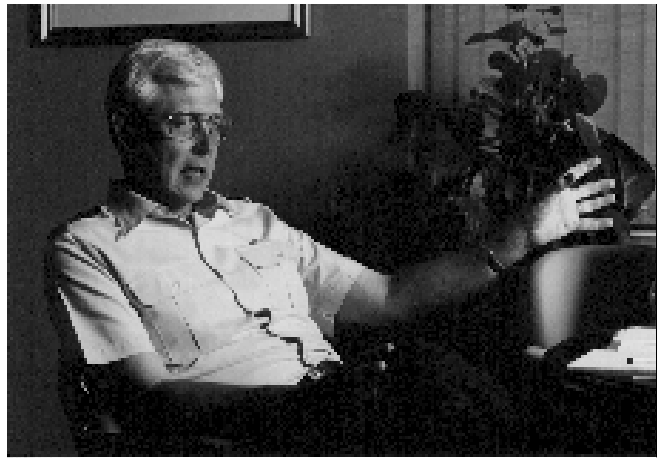
That's a completely different attitude than in today's environment where you can often find budget debates that consist primarily of the participants saying they need more money, more money, and more money. Yet those same people will swear their purpose in life is to reduce the cost of operating the Air Force. How is that suppose to happen? Nobody's willing to give any money back, but somehow we're going to spend less. That's the way our system is set up, and it's going to take a mindset change to overcome that.

I recognize that changing the way we think about and manage money in itself doesn't make anything better. Ultimately, the people who do the command's work know what processes they're responsible for. It's only when those processes change for the better that there's an opportunity to improve performance or save money.

What I'm talking about in financial management is simply a way to keep track. It's a score-keeping mechanism. It's the way the rules are written so the game can be played. In the final analysis, it's up to the individual, once the rules are written and everything's put into place, to play the game. Somebody still has to be in there saying, "I know a better way to do depot maintenance. I know a better way to do program management." When you have people like that—

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and we do—and they know how to keep score, performance goes up and costs come down.

Probably the most important part of managing costs is to first understand what your costs are. That is why I have put a lot of emphasis on accounting. Over the last couple of years you have all probably read the many reports of how inadequate our accounting systems are. But despite the failings of our current systems, we have to do what we can now to ensure we understand what drives our costs and what actions we can take to control those costs. I am looking to my folks in the comptroller community, in particular, to lead the way.

In AFMC we just finished our first year of trying to use business accounting principles and information to manage our costs. We still have to work some “bugs” out of our processes, but we have definitely made progress. We’ve instituted managerial financial statements that I’ve asked my field commanders to review monthly and to brief me on quarterly. These statements were our first shot at incorporating accounting principles to help us increase the visibility of our costs. These financial statements will also be the basis for our first-ever AFMC Annual Report which will summarize our FY98 results. In addition, we’ve undertaken several other tasks to help us further improve our visibility of costs including: revamping our re-

sponsibility center/cost center codes; working with DFAS to produce accurate, automated monthly base-level financial statements; implementing a “Chief Financial Officer (CFO)-compliant” cost accounting system for our appropriated funded businesses and instituting center sales codes which allow us to tie Supply Management Activity Group (SMAG) revenue and costs to the Air Logistics Center responsible for managing the reparable items.

I know some folks say the Air Force is not a business and, therefore, using business tools will never work. My response is that economy of force is one of the traditional principles of warfare. I’ll admit the term isn’t intended to mean an auditor assesses your military readiness, but it does mean military commanders must sparingly use those resources at their disposal. It means choosing an option that consumes the fewest resources to achieve any military objective because that frees up resources for achieving other objectives. I don’t see anything wrong with that principle. Too often we pick the first option that comes along instead of assessing it against another viable, but less expensive option. There’s no reason for that. If we can achieve the objective, we ought to do it using the fewest resources.

Our challenge increases as our budgets become tighter. The comptroller community will be increasingly called upon to help find solutions to resources. The focus in the past has been on budgets and trying to get as much budget as you can. I firmly believe your focus now must be on costs and on providing the right tools and advice to help operators minimize costs as much as possible. With your help we can use accounting to improve our accountability and make our Air Force not only the most effective, but the most efficient in the world.

About the Author

General George T. Babbitt is the Commander, Air Force Materiel Command, Wright-Patterson AFB OH. He was commissioned in 1965 through the Reserve Officer Training Corps program at the University of Washington. He trained as an aircraft maintenance officer and served as officer in charge of fighter flight lines in the US, the Pacific, and Europe. He twice commanded aircraft maintenance squadrons and was deputy commander for maintenance of a European F-15 wing.

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